

VZCZCXRO4487
RR RUEHDE
DE RUEHCV #2065 1911801
ZNY CCCCC ZZH
R 101801Z JUL 06
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 5455
INFO RUEHHH/OPEC COLLECTIVE
RUEHAC/AMEMBASSY ASUNCION 0667
RUEHBO/AMEMBASSY BOGOTA 6761
RUEHBR/AMEMBASSY BRASILIA 5623
RUEHBU/AMEMBASSY BUENOS AIRES 1325
RUEHLP/AMEMBASSY LA PAZ 2176
RUEHPE/AMEMBASSY LIMA 0422
RUEHZP/AMEMBASSY PANAMA 1084
RUEHSP/AMEMBASSY PORT OF SPAIN 3205
RUEHQT/AMEMBASSY QUITO 2258
RUEHSG/AMEMBASSY SANTIAGO 3627
RUEHDG/AMEMBASSY SANTO DOMINGO 0262
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCNDT/USMISSION USUN NEW YORK 0365
RUCPDOC/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L CARACAS 002065

SIPDIS

SIPDIS

ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 07/10/2016

TAGS: EPET ENRG EINV VE

SUBJECT: VENEZUELA, COLOMBIA AND PANAMA INAUGURATE
TRANSCARIBBEAN NATURAL GAS PIPELINE

REF: A. 2005 CARACAS 03594

1B. CARACAS 01709

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

11. (U) On July 8, 2006, Presidents Alvaro Uribe of Colombia and Martin Torrijos of Panama joined President Chavez to inaugurate the "Trans-Caribbean" Natural Gas Pipeline. To be constructed by Petroleos de Venezuela (PDVSA) and Ecopetrol, Colombia's state oil firm, with private-sector supervision, the pipeline carries an estimated construction cost of USD 335 million and will stretch approximately 225 kilometers from Maracaibo, in western Venezuela, to Punta Ballena, in northern Colombia (Reftel A). PDVSA has announced that it alone will finance the project's construction. Beyond celebrating the start of the pipeline's construction, the three leaders signed a memorandum of understanding to explore its extension to Panama; the agreement provides that the first meeting to discuss the extension will take place within seven days of signing. In addition, Chavez reiterated his desire that PDVSA construct a petroleum refinery in Panama, a desire which dovetails with Panama's stated wish to become a regional refining and energy distribution center.

12. (U) The parties hope that the pipeline's first phase of operation, during which it will carry 150 million cubic feet of gas per day (MCFD) from Colombia to Venezuela, will begin in March 2007 and save Venezuela some USD 40 million per month in energy costs. Western Venezuela presently suffers from a significant natural gas deficit, compelling it to burn costlier, dirtier diesel fuel in several western power plants. During the project's second phase of operation -- foreseen to begin in 2011, once Venezuela has further developed its own natural gas fields and infrastructure -- the flow of gas will reverse, and PDVSA hopes to export 250 MCFD to Colombia and, later, perhaps as much as 1,000 MCFD to Colombia and Panama combined. In addition to natural gas delivery, the daily *El Universal* reported on July 10, 2006,

that the parties intend to run a fiber optic cable along the pipeline's route to augment regional telecommunications infrastructure.

¶3. (C) Chavez and Energy and Petroleum Minister Rafael Ramirez used the occasion to trumpet the BRV's revolutionary commitment to regional integration, social welfare, and "endogenous development", emphasizing that PDVSA will direct 10 percent of the project's USD 335 million price tag toward health, education, housing and employment projects along the pipeline's route, 88.5 kilometers of which will lie within Colombia. Further highlighting the integrationist theme, Presidents Chavez and Uribe affirmed their desire to explore joint projects by PDVSA and Ecopetrol in Venezuela and Colombia, as well as in third countries. The back-slapping and glad-handing among the leaders masked some tensions at the operational level of the pipeline, however: a private sector source associated with the project has informed our Petroleum Attache that Ecopetrol employees have found PDVSA arrogance and heavy-handedness off-putting (Reftel B).

¶4. (C) COMMENT: Whatever tensions may exist among PDVSA and Ecopetrol employees, we believe that the pipeline project is commercially viable and will be completed. In fact, the connection to Chavez and the BRV may provide the Colombian leg of the pipeline some protection from the explosive attentions of the FARC and ELN.

BROWNFIELD